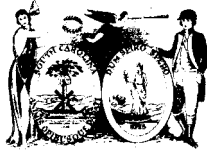


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
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February 18, 2003

Mr. Craig G. DeKany, Reimbursement Manager
HCR - Manor Care
Post Office Box 10086
Toledo, Ohio 43699-0086

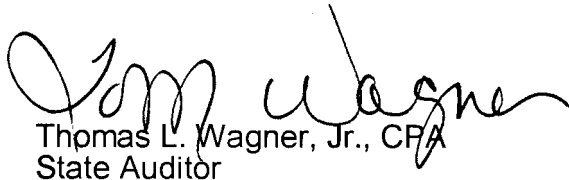
Re: AC# 3-MAN-J9 – Manor Care of Lexington, Inc. d/b/a Manor Care
Rehabilitation and Nursing Center

Dear Mr. DeKany:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1998 through September 30, 1999. That report was used to set the rate covering the contract period beginning October 1, 2000.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph P. Hayes

**MANOR CARE OF LEXINGTON, INC., D/B/A
MANOR CARE REHABILITATION AND NURSING CENTER
WEST COLUMBIA, SOUTH CAROLINA**

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2000
AC# 3-MAN-J9**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

CONTENTS

	<u>EXHIBIT OR SCHEDULE</u>	<u>PAGE</u>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIOD BEGINNING OCTOBER 1, 2000	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 2000 THROUGH SEPTEMBER 30, 2001	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 1999	C	5
ADJUSTMENT REPORT	1	7
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	9

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

January 17, 2003

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Manor Care of Lexington, Inc. d/b/a Manor Care Rehabilitation and Nursing Center, for the contract period beginning October 1, 2000, and for the twelve month cost report period ended September 30, 1999, as set forth in the accompanying schedules. The management of Manor Care of Lexington, Inc. d/b/a Manor Care Rehabilitation and Nursing Center is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

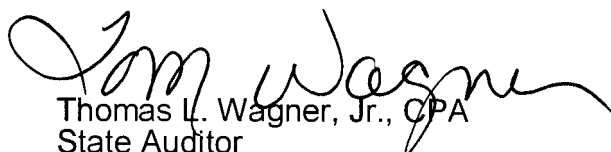
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Manor Care of Lexington, Inc. d/b/a Manor Care Rehabilitation and Nursing Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Manor Care of Lexington, Inc. d/b/a Manor Care Rehabilitation and Nursing Center dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
January 17, 2003

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.



Thomas L. Wagner, Jr., CPA
State Auditor

MANOR CARE REHABILITATION AND NURSING CENTER

Computation of Rate Change
For the Contract Period
Beginning October 1, 2000
AC# 3-MAN-J9

10/01/00-
09/30/01

Interim Reimbursement Rate (1)	\$91.96
Adjusted Reimbursement Rate	<u>89.77</u>
Decrease in Reimbursement Rate	\$ <u><u>2.19</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated January 25, 2002

MANOR CARE REHABILITATION AND NURSING CENTER
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 2000 Through September 30, 2001
AC# 3-MAN-J9

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$41.55	\$50.24	
Dietary		8.17	10.12	
Laundry/Housekeeping/Maintenance		<u>6.53</u>	<u>8.88</u>	
Subtotal	\$ <u>4.85</u>	56.25	69.24	\$56.25
Administration & Medical Records	\$ <u>-</u>	<u>13.94</u>	<u>10.55</u>	<u>10.55</u>
Subtotal		70.19	<u>\$79.79</u>	66.80
<u>Costs Not Subject to Standards:</u>				
Utilities		2.45		2.45
Special Services		.20		.20
Medical Supplies & Oxygen		3.65		3.65
Taxes and Insurance		1.52		1.52
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$78.01</u>		74.62
Inflation Factor (3.20%)				2.39
Cost of Capital				9.61
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				4.85
Effect of \$1.75 Cap on Cost/Profit Incentives				(3.10)
Nurse Aide Staffing Add-On 10/01/99				.91
Nurse Aide Staffing Add-On 10/01/00				<u>.49</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$89.77</u>

MANOR CARE REHABILITATION AND NURSING CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1999
AC# 3-MAN-J9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,938,662	\$ -	\$ 14,395 (5) 1,290 (5)	\$1,922,977
Dietary	380,761	-	2,654 (5)	378,107
Laundry	90,421	-	-	90,421
Housekeeping	123,905	626 (6)	642 (7)	123,889
Maintenance	88,194	423 (6)	475 (5) 430 (7)	87,712
Administration & Medical Records	647,023	1,720 (6)	2,058 (5) 135 (5) 1,493 (7)	645,057
Utilities	113,416	550 (6)	556 (7)	113,410
Special Services	8,993	101 (5)	-	9,094
Medical Supplies & Oxygen	169,077	-	140 (5)	168,937
Taxes and Insurance	104,226	486 (6)	22,436 (3) 11,698 (4) 330 (7)	70,248
Legal Fees	-	-	-	-

MANOR CARE REHABILITATION AND NURSING CENTER
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 1999
 AC# 3-MAN-J9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	490,744	1,394 (6) 3,242 (8)	33,191 (1) 13,703 (2) 807 (7)	447,679
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Subtotal	4,155,422	8,542	106,433	4,057,531
Ancillary	98,160	-	-	98,160
Non-Allowable	324,974	33,191 (1) 13,703 (2) 22,436 (3) 11,698 (4) 21,046 (5) 4,258 (7)	5,199 (6) 3,242 (8)	422,865
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Operating Expenses	<u>\$4,578,556</u>	<u>\$114,874</u>	<u>\$114,874</u>	<u>\$4,578,556</u>
Total Patient Days	<u>46,253</u>	<u>29 (9)</u>	<u>-</u>	<u>46,282</u>
Total Beds	<u>133</u>	Cost of Capital Patient Days		<u>46,603</u>

MANOR CARE REHABILITATION AND NURSING CENTER

Adjustment Report
Cost Report Period Ended September 30, 1999
AC# 3-MAN-J9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$691,520	
	Nonallowable	33,191	
	Other Equity		\$ 21,565
	Accumulated Depreciation		669,955
	Cost of Capital		33,191
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	13,703	
	Cost of Capital		13,703
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
3	Nonallowable	22,436	
	Taxes and Insurance		22,436
	To adjust real property tax expense HIM-15-1, Sections 2302.1 and 2304		
4	Nonallowable	11,698	
	Taxes and Insurance		11,698
	To adjust liability insurance expense HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
5	Special Services	101	
	Nonallowable	21,046	
	Nursing		14,395
	Restorative		1,290
	Dietary		2,654
	Maintenance		475
	Administration		2,058
	Medical Records		135
	Medical Supplies		140
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

MANOR CARE REHABILITATION AND NURSING CENTER

Adjustment Report
Cost Report Period Ended September 30, 1999
AC# 3-MAN-J9

ADJUSTMENT NUMBER	ACCOUNT TITLE	DEBIT	CREDIT
6	Housekeeping	626	
	Maintenance	423	
	Administration	1,720	
	Utilities	550	
	Taxes and Insurance	486	
	Cost of Capital	1,394	
	Nonallowable		5,199
	To reverse DH&HS adjustment to remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
7	Nonallowable	4,258	
	Housekeeping		642
	Maintenance		430
	Administration		1,493
	Utilities		556
	Taxes and Insurance		330
	Cost of Capital		807
	To remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
8	Cost of Capital	3,242	
	Nonallowable		3,242
	To adjust capital return State Plan, Attachment 4.19D		
9	<u>Memo Adjustment:</u> To increase total patient days by 29 to 46,282		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	\$806,394	\$806,394

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

MANOR CARE REHABILITATION AND NURSING CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1999
AC# 3-MAN-J9

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.3156</u>	<u>2.3156</u>	
Deemed Asset Value (Per Bed)	36,165	36,165	
Number of Beds	<u>121</u>	<u>12</u>	
Deemed Asset Value	4,375,965	433,980	
Improvements Since 1981	1,810,603	3,984	
Accumulated Depreciation at 9/30/99	<u>(1,964,333)</u>	<u>(43,946)</u>	
Deemed Depreciated Value	4,222,235	394,018	
Market Rate of Return	<u>.060</u>	<u>.060</u>	
Total Annual Return	253,334	23,641	
Return Applicable to Non-Reimbursable Cost Centers	(1,185)	(109)	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	252,149	23,532	
Depreciation Expense	150,557	18,826	
Amortization Expense	3,422	-	
Capital Related Income Offsets	-	-	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(720)</u>	<u>(87)</u>	<u>Total</u>
Allowable Cost of Capital Expense	405,408	42,271	\$447,679
Total Patient Days (Minimum 96% Occupancy)	<u>42,398</u>	<u>4,205</u>	<u>46,603</u>
Cost of Capital Per Diem	\$ <u>9.56</u>	\$ <u>10.05</u>	\$ <u>9.61</u>

MANOR CARE REHABILITATION AND NURSING CENTER
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 1999
 AC# 3-MAN-J9

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ 6.93	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	\$ <u>10.92</u>	\$ <u>10.05</u>
Reimbursable Cost of Capital Per Diem		\$9.61
Cost of Capital Per Diem		<u>9.61</u>
Cost of Capital Per Diem Limitation		\$ <u>-</u>

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